



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

Region IX
Office of Audit Services
50 United Nations Plaza
San Francisco, CA 94102

October 27, 2003

Report Number: A-09-03-00032

Mr. Michael J. Lohnberg, Vice President
Regulatory and Government Compliance Officer
Blue Cross of California
21555 Oxnard Street, AC-9G
Woodland Hills, California 91367

Dear Mr. Lohnberg:

Enclosed are two copies of the U.S. Department of Health and Human Services (HHS), Office of Inspector General's final report entitled "Review of Transition and Termination Costs for the Medicare Contract Terminated as of November 30, 2000, Blue Cross of California, Woodland Hills, California." This report provides the results of our review of Medicare transition and termination costs claimed by Blue Cross of California. It claimed transition costs of \$137,131 on its final administrative cost proposal for the fiscal year ended September 30, 2000, and termination costs of \$690,008 on three termination cost vouchers for the period December 1, 2000 through April 30, 2002. This review was requested by the Centers for Medicare & Medicaid Services. A copy of this report will be forwarded to the action official noted below for review and any action deemed necessary.

The objective of our review was to determine whether Medicare transition and termination costs claimed by Blue Cross of California were allowable, reasonable, and allocable, and were supported by adequate documentation under the applicable provisions of the Federal Acquisition Regulation, the Medicare contract and subcontract agreement, and other Centers for Medicare & Medicaid Services instructions.

We concluded that \$95,719 of the \$137,131 claimed for transition costs was acceptable. We recommended a financial adjustment of \$35,452 because Blue Cross of California claimed unsupported travel costs, unsupported consultant fees, and duplicate consultant fees. We also set aside \$5,960 of travel costs for determination of allowability by the Centers for Medicare & Medicaid Services because the costs were not related to the transition, but would otherwise be allowable as Medicare administrative costs.

In addition, we concluded that \$222,943 of the \$690,008 claimed for termination costs was acceptable. We recommended a financial adjustment of \$283,735 for costs that had already been claimed, costs incurred for the successor contractor, costs incurred due to failure to dispose of equipment promptly, costs that were not incurred, costs not related to Medicare, and overhead costs

related to direct costs recommended for adjustment. We also set aside \$183,330 of termination costs for determination of allowability by the Centers for Medicare & Medicaid Services. The \$182,330 represents a loss on disposition of Medicare assets for which a salvage value could not be determined; consultant fees and miscellaneous costs that were not related to the termination, but would otherwise be allowable as Medicare administrative costs; and overhead costs related to direct costs set aside. We have not made any procedural recommendations because Blue Cross of California is no longer participating in the Medicare program.

Blue Cross of California generally agreed with the findings and recommendations, except for the findings regarding unallowable travel costs and consultant fees, and costs set aside for loss on disposition of Medicare assets.

Final determination as to actions taken on all matters reported will be made by the HHS action official. We request that you respond to the HHS action official within 30 days from the date of this letter. Your response should present any comments or additional information that you believe may have a bearing on the final determination.

In accordance with the principles of the Freedom of Information Act (5 USC, 552, as amended by Public Law 104-231), OIG reports are made available to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act which the department chooses to exercise. (See 45 CFR Part 5.)

If you have any questions or comments concerning the matters presented in this report, please direct them to the HHS official named below. To facilitate identification, please refer to report number A-09-03-00032 in all correspondence relating to this report.

Sincerely,



Lori A. Ahlstrand
Regional Inspector General
for Audit Services

Enclosures – as stated

Direct Reply to HHS Action Official:

Jeff Flick, Regional Administrator
Centers for Medicare & Medicaid Services
U.S. Department of Health and Human Services
75 Hawthorn Street, 4th Floor
San Francisco, California 94105

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF TRANSITION AND
TERMINATION COSTS
FOR THE MEDICARE CONTRACT
TERMINATED
AS OF NOVEMBER 30, 2000**

**BLUE CROSS OF CALIFORNIA
WOODLAND HILLS, CALIFORNIA**



Inspector General

**October 2003
A-09-03-00032**

Office of Inspector General

<http://oig.hhs.gov/>

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The OIG's Office of Audit Services (OAS) provides all auditing services for HHS, either by conducting audits with its own audit resources or by overseeing audit work done by others. Audits examine the performance of HHS programs and/or its grantees and contractors in carrying out their respective responsibilities and are intended to provide independent assessments of HHS programs and operations in order to reduce waste, abuse, and mismanagement and to promote economy and efficiency throughout the Department.

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In accordance with the principles of the Freedom of Information Act, 5 U.S.C. 552, as amended by Public Law 104-231, Office of Inspector General, Office of Audit Services, reports are made available to members of the public to the extent information contained therein is not subject to exemptions in the Act. (See 45 CFR Part 5.)

OAS FINDINGS AND OPINIONS

The designation of financial or management practices as questionable or a recommendation for the disallowance of costs incurred or claimed as well as other conclusions and recommendations in this report represent the findings and opinions of the HHS/OIG/OAS. Authorized officials of the awarding agency will make final determination on these matters.





Region IX
Office of Audit Services
50 United Nations Plaza
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Report Number: A-09-03-00032

Mr. Michael J. Lohnberg, Vice President
Regulatory and Government Compliance Officer
Blue Cross of California
21555 Oxnard Street, AC-9G
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Dear Mr. Lohnberg:

This report provides the results of our review of Medicare transition and termination costs claimed by Blue Cross of California. It claimed transition costs of \$137,131 on its final administrative cost proposal for the fiscal year ended September 30, 2000, and termination costs of \$690,008 on three termination cost vouchers for the period December 1, 2000 through April 30, 2002.

OBJECTIVE

The objective of our review was to determine whether Medicare transition and termination costs claimed by Blue Cross of California were allowable, reasonable, and allocable, and were supported by adequate documentation under the applicable provisions of the Federal Acquisition Regulation, the Medicare contract and subcontract agreement, and other Centers for Medicare & Medicaid Services (CMS) instructions.

TRANSITION COSTS

We concluded that \$95,719 of the \$137,131 claimed for transition costs was acceptable. We recommend a financial adjustment of \$35,452 because Blue Cross of California claimed unsupported travel costs, unsupported consultant fees, and duplicate consultant fees. We set aside \$5,960 of travel costs for CMS's determination of allowability because the costs were not related to the transition, but would otherwise be allowable as Medicare administrative costs.

TERMINATION COSTS

We concluded that \$222,943 of the \$690,008 claimed for termination costs was acceptable. We recommend a financial adjustment of \$283,735 for costs that had already been claimed, costs incurred for the successor contractor, costs incurred due to failure to dispose of equipment promptly, costs that were not incurred, costs not related to Medicare, and overhead costs related to direct costs recommended for adjustment. We also set aside \$183,330 of termination costs for CMS's determination of allowability. The \$183,330 set aside represented a loss on disposition

of Medicare assets for which a salvage value could not be determined; consultant fees and miscellaneous costs that were not related to the termination, but would otherwise be allowable as Medicare administrative costs; and overhead costs related to direct costs set aside. We have not made any procedural recommendations because Blue Cross of California is no longer participating in the Medicare program.

In a written response to the draft report, dated August 29, 2003, Blue Cross of California generally agreed with the findings and recommendations, except for the findings regarding unallowable travel costs and consultant fees, and costs set aside for loss on disposition of Medicare assets. Its written comments are summarized following each recommendation and are attached in their entirety as an appendix to this report.

INTRODUCTION

BACKGROUND

The Medicare program is a federal health insurance program whose beneficiaries include individuals 65 years of age or over, disabled or blind persons, or those suffering from chronic renal disorders. Medicare, which was established by Congress in 1965 through the enactment of Title XVIII of the Social Security Act, consists of two distinct parts.

- Hospital Insurance (Part A) covers expenses of medical services furnished in an institutional setting, such as a hospital or skilled nursing facility, or provided by a home health agency.
- Supplemental Medical Insurance (Part B) covers physician services, certain other medical equipment and services, and outpatient services.

CMS, formerly known as the Health Care Financing Administration, administers the Medicare program with the assistance of public or private organizations known as intermediaries or carriers. CMS contracted with the Blue Cross/Blue Shield Association to perform services in various states as a fiscal intermediary under Part A of the Medicare program. The Blue Cross/Blue Shield Association subcontracted with Blue Cross of California to serve as a Part A intermediary through November 2000. Effective November 30, 2000, Blue Cross of California elected to no longer function as a fiscal intermediary and terminated its contract with the Blue Cross/Blue Shield Association and CMS. United Government Services, LLC, Milwaukee, Wisconsin, was awarded a contract to assume the workload previously handled by Blue Cross of California. The majority of Blue Cross of California's Medicare staff, facilities, and equipment were transferred to United Government Services in order to eliminate any disruption of the processing and paying of Medicare claims.

Appendix B of the contract between the Blue Cross/Blue Shield Association and CMS set forth principles of reimbursement for administrative costs including termination costs. Appendix B also cited the Federal Acquisition Regulation, Code of Federal Regulations, Title 48, Chapter 1 as regulatory principles to be followed for application to the Medicare contract, and provided

additional guidelines for specific cost areas. Further, on November 15, 2000, CMS issued a memorandum with instructions in order to clarify its policies and procedures regarding the transition and termination or non-renewal costs incurred by a contractor exiting the Medicare program.

Blue Cross of California claimed a total of \$137,131 on its fiscal year 2000 final administrative cost proposal for transition costs incurred to transfer the Medicare workload to United Government Services. The Office of Inspector General recently performed an audit of Blue Cross of California's final administrative cost proposals including fiscal year 2000 (Report Number: A-09-00-00127). However, the transition costs were set aside to be reviewed separately. In addition, Blue Cross of California claimed a total of \$690,008 for the period December 1, 2000 through April 30, 2002 for termination costs incurred to close down its Medicare operations. It submitted three termination cost vouchers as follows.

Period	Amount
December 1, 2000 through March 31, 2001	\$241,676
April 1, 2001 through July 31, 2001	321,721
August 1, 2001 through April 30, 2002	<u>126,611</u>
Total	<u>\$690,008</u>

Blue Cross of California did not obtain a termination budget approval from CMS for \$347,033 of the \$690,008 claimed.

OBJECTIVE, SCOPE AND METHODOLOGY

Our audit was performed in accordance with generally accepted government auditing standards. The objective of our review was to determine whether Medicare transition and termination costs claimed by Blue Cross of California were allowable, reasonable, and allocable, and were supported by adequate documentation under the applicable provisions of the Federal Acquisition Regulation, the Medicare contract and subcontract agreement, and other CMS instructions.

To accomplish our objective, we reviewed selected invoices, expense vouchers and journal entries; examined appropriate supporting documentation; and evaluated the reasonableness and propriety of cost allocations. We conducted data analyses and inquiries of Blue Cross of California officials when the supporting documents were inconclusive or required further explanation. Also, we performed a limited review of internal controls to obtain an understanding of the accounting policies and procedures relevant to the audit objective.

Although \$347,033 of the \$690,008 of termination costs was claimed without a prior budget approval, a CMS official requested that we review the allowability of all cost elements claimed on the three termination vouchers submitted by Blue Cross of California. We performed our fieldwork at Blue Cross of California's office located in Woodland Hills, California during the period January 2003 through May 2003.

FINDINGS AND RECOMMENDATIONS

For the transition and termination costs claimed by Blue Cross of California, this section of the report provides details of the amounts we accepted, recommended for adjustment and set aside for CMS's determination of allowability. In a written response to the draft report, dated August 29, 2003, Blue Cross of California generally agreed with the findings and recommendations, except for the findings regarding unallowable travel costs and consultant fees, and costs set aside for loss on disposition of Medicare assets. Its written comments are summarized following each recommendation and are attached in their entirety as an appendix to this report.

TRANSITION COSTS

We determined that \$95,719 of the \$137,131 claimed for transition costs was acceptable. The balance of \$41,412 represented recommended reductions totaling \$35,452 and costs set aside totaling \$5,960. The results of our audit of transition costs are summarized below.

Element of Cost	Claimed Costs	Accepted	Recommended Adjustments	Set Aside
Travel	\$56,715	\$40,931	\$9,824	\$5,960
Consultants	61,628	36,000	25,628	
Medicare Secondary Payer Cleanup	14,623	14,623		
Temporary Workers	4,165	4,165		
Total	\$137,131	\$95,719	\$35,452	\$5,960

The recommended adjustments and costs set aside for CMS's determination of allowability are discussed in detail below.

Travel Costs

Blue Cross of California claimed a total of \$56,715 for travel expenses incurred to have its employees attend transition meetings held in various locations, such as Milwaukee, Wisconsin and Chicago, Illinois. We found that \$9,824 of the \$56,715 claimed for travel costs was not allowable because Blue Cross of California failed to provide travel expense reports or adequate documentation to support the claimed costs. We also set aside \$5,960 of travel costs for CMS's determination of allowability because (i) \$1,319 was incurred for travel costs that were not related to the transition but would otherwise be allowable as Medicare administrative costs and (ii) \$4,641 was incurred for travel costs that were only supported by accounting journal entries without travel expense reports. From the accounting journal entries, we were unable to

determine whether the \$4,641 of costs was related to the transition or non-transition activities. However, even if the costs were not related to transition activities, the costs may have been allowable as Medicare administrative costs.

Consultant Fees

Blue Cross of California claimed a total of \$61,628 for two consultants hired to assist with the transition of computer systems from Blue Cross of California to United Government Services. We found that \$25,628 of the \$61,628 claimed for consultant fees was not allowable because Blue Cross of California failed to provide adequate documentation to support its claims for \$6,588 and submitted duplicate claims for \$19,040.

Recommendation

We recommend a financial adjustment of \$35,452 for unsupported travel costs, unsupported consultant fees, and duplicate consultant fees included in the fiscal year 2000 final administrative cost proposal as transition costs.

Blue Cross of California should work with CMS to determine the allowability of costs set aside totaling \$5,960.

Blue Cross of California Comments

Blue Cross of California agreed with the recommended adjustments except for unsupported travel costs of \$9,824 and unsupported consultant fees of \$6,588. It stated that the travel costs and consultant fees should not be disallowed because the original documentation supporting claimed costs was maintained by former Blue Cross of California staff, currently United Government Services staff, and were not retrievable by Blue Cross of California. It further stated that the travel costs should be allowed based on emails regarding travel expenses from the managers involved indicating the dates and purpose of travel.

OIG Response

The Federal Acquisition Regulation section 31.201-2 (d) states in part; “[a] contractor is responsible for accounting for costs appropriately and for maintaining records, including supporting documentation, adequate to demonstrate that costs claimed have been incurred, are allocable to the contract, and comply with applicable cost principles...The contracting officer may disallow all or part of a claimed cost which is inadequately supported.”

It was Blue Cross of California’s responsibility for maintaining records to support the claimed costs. Further, emails regarding travel expenses were not adequate to demonstrate that the claimed costs were incurred. Therefore, the \$9,824 in claimed travel costs and \$6,588 in claimed consultant fees are unallowable.

TERMINATION COSTS

We determined that \$222,943 of the \$690,008 claimed for termination costs was acceptable. The balance of \$467,065 represented recommended reductions totaling \$283,735 and costs set aside for CMS's determination of allowability totaling \$183,330. The results of our audit of termination costs are summarized below.

<u>Element of Cost</u>	<u>Claimed Costs</u>	<u>Accepted</u>	<u>Recommended Adjustments</u>	<u>Set Aside</u>
Personal Service Costs	\$137,204	\$137,204		
Loss on Disposition of Medicare Assets	76,494		\$39,574	\$36,920
Equipment Lease Termination Fee	31,371	31,371		
Record Storage Fee	52,323		52,323	
Bank Lock Box Service Fee	34,738	34,738		
Consultant Fee	61,329		21,400	39,929
Travel	1,044		1,044	
Personal Computer/Electronic Data Processing	33,166		33,166	
Furniture and Equipment	19,599		19,599	
Supplies	22,718		22,718	
Communication	26,178	2,896	23,282	
Miscellaneous	142,732	220	49,612	92,900
Sub-Total	638,896	206,429	262,718	169,749
Overhead Costs	51,112	16,514	21,017	13,581
TOTAL	\$690,008	\$222,943	\$283,735	\$183,330

The recommended adjustments and costs set aside for CMS's determination of allowability are discussed in detail below.

Loss on Disposition of Medicare Assets

We found that \$36,920 of the \$76,494 claimed for loss on disposition of Medicare assets should be set aside for CMS's determination of allowability because the salvage value of assets could not be determined. Blue Cross of California disposed of the Medicare assets, but did not make an accounting journal entry to record the transaction at the time of disposal. Later, Blue Cross of California made an accounting journal entry to remove the book value of the assets from its Medicare asset account. However, the accounting journal entry did not show the salvage value of the assets.

We also found that \$39,574 was not allowable because the costs represented a duplicate claim. Blue Cross of California claimed \$36,920 on the first termination voucher and \$39,574 on the third termination voucher for the same Medicare assets.

Record Storage Fees

We found that the \$52,323 claimed for record storage fees was not allowable because Blue Cross of California had already obtained reimbursement from United Government Services.

Consultant Fees

We found that the \$61,329¹ claimed for consultant fees was not allocable to termination costs. Blue Cross of California incurred the costs before terminating the Medicare contract by hiring a consulting firm that provided assistance in testing of a computer system that would be used for Medicare. Blue Cross of California paid only \$39,929 of the total amount owed as a result of negotiations with the consulting firm. Therefore, we concluded that the \$39,929 should be set aside for CMS's determination of allowability because the costs were not related to termination activities, but would otherwise be allowable as Medicare administrative costs, and a financial adjustment should be made to termination costs claimed in the amount of \$21,400 representing costs not incurred.

Travel Costs

We found that the \$1,044 claimed for travel costs was not allowable because the costs were incurred for United Government Services employees.

Personal Computer and Electronic Data Processing Costs

We found that \$33,166 claimed for personal computer and electronic data processing costs was not allowable for the following reasons:

- \$18,221 was incurred for equipment that was possessed and used by United Government Services.
- \$6,714 was incurred because of Blue Cross of California's failure to dispose of equipment promptly, resulting in excessive depreciation expenses.
- \$6,247² was incurred while performing electronic data processing and other work for United Government Services.
- \$1,984 was incurred for United Government Services employees.

¹ This amount consisted of two cost elements: consultant fees for \$62,250 and "OS - OTHER outside" for (\$921). Blue Cross of California combined the two cost elements even though the (\$921) was not related to the consultant fees.

² We did not verify whether Blue Cross of California performed the work for United Government Services.

Furniture and Equipment Costs

We found that the \$19,599 claimed for furniture and equipment costs was not allowable because Blue Cross of California did not use the equipment during the period that the costs were incurred. Blue Cross of California officials stated that United Government Services possessed and used the equipment during the period.

Supply Costs

We found that the \$22,718 claimed for supply costs was not allowable. Blue Cross of California officials stated that the claimed costs were incurred while performing electronic data processing work for United Government Services. We did not verify whether Blue Cross of California performed the electronic data processing work for United Government Services.

Communication Costs

We found that \$23,282 of the \$26,178 claimed for communication costs was not allowable because the costs were not Medicare related. Instead, the costs were incurred for other Blue Cross of California corporate functions.

Miscellaneous Costs

We found that \$92,900 of the \$142,732 claimed as miscellaneous costs should be set aside for CMS's determination of allowability because the costs were not related to termination activities, but would otherwise be allowable as Medicare administrative costs. The \$92,900 represented subscription fees to the BlueCross/BlueShield Association that handled Medicare appeals and administrative resolutions for Medicare providers. We also found that \$49,612 was not allowable because the costs represented duplicate claims. The results of our audit of miscellaneous costs are summarized below.

Miscellaneous Costs	Claimed Amount	Set Aside	Duplicate Claims
Subscription Fees	\$92,900	\$92,900	
Contractor AR Cleanup ³	14,623		\$14,623
Bank Lock Box Fees ⁴	34,738		34,738
Other Duplicate Costs	251		251
Accepted Costs	220		
Total	\$142,732	\$92,900	\$49,612

³ This cost was also claimed as a transition cost under the "Medicare Secondary Payer Cleanup" element of cost.

⁴ This cost was also claimed under the "Bank Lock Box Service Fee" element of cost.

Overhead Costs

We concluded that \$21,017 of the \$51,112 claimed for overhead costs was not allowable, and \$13,581 should be set aside for CMS's determination of allowability. After we determined the recommended adjustments and costs set aside, we applied the 8 percent overhead cost rate to the total recommended adjustments and costs set aside.

Recommendation

We recommend a financial adjustment of \$283,735 for unallowable costs included on the termination vouchers.

Blue Cross of California should work with CMS to determine the allowability of costs set aside totaling \$183,330.

Blue Cross of California Comments

Blue Cross of California agreed with the recommended adjustments except for disallowed travel costs of \$1,044. It stated that the travel cost of \$1,044 should be allowed because the costs were processed and paid by Blue Cross of California for individuals who were Blue Cross of California staff at the time.

In addition, Blue Cross of California disagreed with our decision to set aside \$36,920 for loss on disposition of Medicare assets. It stated that the equipment associated with loss on disposition of Medicare assets was found to be obsolete and had no value during the inventory count. Therefore, the salvage value should be considered zero, and the loss of \$36,920 should be allowed.

OIG Response

During our review, Blue Cross of California informed us that the staff incurred the claimed travel costs while employed by United Government Services. Blue Cross of California could not explain why the travel costs were recorded in its accounting system, and could not provide documentation supporting the costs. Therefore, the claimed travel costs of \$1,044 should be disallowed.

The \$36,920 for loss on disposition of Medicare assets should be set aside for CMS's determination of allowability because Blue Cross of California could not provide documentation to show the salvage value of the assets.

OTHER MATTERS


We found that Blue Cross of California overstated its fiscal year 2001 final administrative cost proposal by \$11,607 because it failed to make a financial adjustment when required. Blue Cross of California manually claimed \$104,844 of transition costs as part of miscellaneous adjustments

to the fiscal year 2000 final administrative cost proposal. Of the \$104,844, \$77,301 had also been recorded as part of the fiscal year 2001 final administrative cost proposal. Therefore, \$77,301 was subject to a financial adjustment on the fiscal year 2001 final administrative cost proposal. However, Blue Cross of California made an adjustment of only \$65,694, which resulted in the overstatement of \$11,607 on the fiscal year 2001 final administrative cost proposal.

* * * * *

To facilitate identification, please refer to report number A-09-03-00032 in all correspondence relating to this report.

Sincerely,



Lori A. Ahlstrand
Regional Inspector General
for Audit Services

APPENDIX



Michael J. Lohnberg, FCA, CFE
Vice President
Large Group and Government Compliance Officer

August 29, 2003

Ms. Lori A. Ahlstrand
Regional Inspector General For Audit Services
Department of Health and Human Services
Office of Inspector General
Region IX
Office of Audit Services
50 United Nations Plaza, Room 171
San Francisco, California 94102

Dear Ms. Ahlstrand:

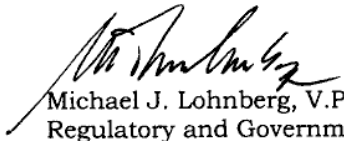
TRANSITION AND TERMINATION COSTS
REPORT NUMBER A-09-03-00032

Reference is to subject draft report dated June 24, 2003.

Attached* is the response from Blue Cross of California. Note that there are other costs that need to be billed to CMS and some additional research work is in progress. Furthermore, we are also researching the accounting treatment for FAS 106, Post Retirement Benefits Other Than Pensions, to determine the appropriateness of the charges to the Medicare Part A Intermediary Program.

Thank you for the opportunity to respond to your draft report. If there are any changes to the report, could we please be informed of them to determine the impact on our responses? If you or your staff have any questions, please do not hesitate to contact me.

Sincerely,


Michael J. Lohnberg, V.P.
Regulatory and Government Compliance

MJL:lw:437medtr
Attachment*

Transition Costs

Travel Costs

BCC does not agree with OIG's recommendation that \$9,824 in claimed travel costs not be allowable because of inadequate documentation. Although we were unable to supply the detail receipts, BCC provided emails related to the travel expense from the managers involved indicating the dates of travel and the purpose. The staff involved with this travel was transferred to UGS and maintained the original documentation in their possession. BCC was unable to retrieve it from them.

BCC agrees that \$5,960 in claimed travel costs should be put aside, because although they were incurred as part of doing Medicare business, they were not a part of the Transition Costs. They are a part of Medicare related administrative costs and BCC requests that these be considered as part of the settlement.

Consultant Fees

BCC does not agree with OIG's recommendation that \$6,588 in consultant fees not be allowable because of inadequate documentation. The staff that was involved with the project was transferred to UGS and it was agreed that they would maintain the original documentation. BCC requested copies but was unable to retrieve it from them.

BCC agrees with OIG's recommendation that \$19,040 should not be allowable because those costs were submitted in duplicate.

Summary:

Of the \$137,131 costs submitted in the Transition Budget the following should apply:

- \$112,131 should be allowable in the Transition Budget
- \$ 5,960 should be set aside as a part of the settlement
- \$ 19,040 should not be allowable

Termination Costs

Loss on Disposition of Medicare Assets

BCC does not agree with OIG's recommendation that \$36,920 in assets should be set aside for CMS determination. It was determined during the inventory that this equipment was obsolete and had no value therefore salvage value should be considered zero.

BCC agrees with the OIG finding that \$39,574 is not allowable because it represents a duplicate claim for the same asset.

Record Storage Fees

BCC agrees with the OIG finding that \$52,323 claimed for record storage fees are not allowable, because we obtained reimbursement from UGS.

Consultant Fees

BCC agrees with the OIG recommendation that \$39,929 of the \$61,329 claimed for consultant fees should be allowed and that the other \$21,400 should not be allowed since BCC negotiated a payment with Computer Associate for a lesser amount than the total billed. BCC notes that additional Consultant Fees paid still need to be billed to CMS.

Travel Costs

BCC does not agree with OIG's recommendation that \$1,044 claimed for travel costs are not allowable because the costs were incurred for UGS employees. These costs were processed and paid by the BCC accounts payable department to individuals who were on BCC staff at the time.

Personal Computer (PC) and Electronic Data Processing (EDP) Costs

BCC is further researching with UGS the precise nature of the \$33,166 claimed for PC and EDP costs that were disallowed by the auditors.

Furniture and Equipment Costs

BCC agrees with the OIG finding that \$19,599 claimed for furniture and equipment costs are not chargeable to termination cost and should be billed to UGS.

Supply Costs

BCC agrees with OIG that \$22,718 claimed for supply costs are not chargeable to termination costs and should be billed to UGS.

Communication Costs

BCC agrees with the OIG's recommendation that \$23,282 of the \$26,178 claimed for communication costs are not allowable and that \$2,394 of claimed communication costs should be allowed.

Miscellaneous Costs

BCC agrees with OIG that \$92,900 in Blue Cross Association Government Service Fees are not part of the Termination Costs, but they are Medicare related and so we request that they be considered in the settlement.

BCC agrees with OIG that \$49,612 are duplicate costs and should not be allowable.

Overhead

BCC agrees that overhead should be adjusted by \$20,934 for the nonallowable costs claimed that should be adjusted.

Summary:

Of the \$690,008 costs submitted in the Termination Budget the following should apply:

- \$307,068 should be allowable in the Termination Budget
- \$ 92,900 plus \$7,432 in overhead should be set aside as a part of the settlement
- \$228,508 in costs plus \$18,281 in overhead should not be allowable
- \$ 33,166 in costs plus \$2,653 in overhead costs are being researched

BCC would like to add that there are additional termination costs that were incurred subsequent to this audit and that BCC will be submitting these to CMS for consideration.

ACKNOWLEDGMENTS

This report was prepared under the direction of Lori Ahlstrand, Regional Inspector General for Audit Services. Other principal Office of Audit Services staff who contributed include:

Jerry McGee, *Audit Manager*

Jessica Kim, *Senior Auditor*

George Stokes, *Auditor*

For information or copies of this report, please contact the Office of Inspector General's Public Affairs office at (202) 619-1343.